

Prospects for Bush summit: Nil

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 GLOBE AND MAIL UPDATE
 OCTOBER 23, 2008 AT 6:15 PM EDT

OTTAWA — It's pretty easy to sum up the current problem with global financial regulation: there isn't any.

This is not going to change after the summit of selected world leaders that U.S. President George W. Bush has called for Nov. 15 in Washington. Yet until this gaping hole is filled, the world remains vulnerable to more crises as destabilizing as the one we are in now.

For regulation to be effective, it must have the same span as the activity being regulated. Financial activity is global. Regulation remains resolutely national. The disconnect is obvious.

What we have now:

Yes, there are international institutions and groups whose mandate supposedly includes ensuring global financial stability. These include the International Monetary Fund (IMF), the Bank for International Settlements and related Financial Stability Forum, the Group of Seven heads of government and its expanded version, the Group of 20.

In reality, they are all talking shops with no power to enforce their decisions, even on their own members. National governments can choose to follow their suggestions, or not, depending on what they think is in their best domestic interest.

(The only exceptions are impoverished countries seeking a loan from the IMF, who must agree to abide by its conditions. But these are hardly the financial powerhouses active on the world stage.)

Many of these institutions and groups were designed for a world that no longer exists, when financial activity was more constrained within national borders and when a few powerful countries could write the rules for the rest of the world, confident that they would be followed.

The IMF, which by long-outdated convention is always led by a European, was set up in 1944 to help stabilize through co-operation a system of fixed exchange rates that subsequently broke down in the 1970s.

The World Bank, which by equally outdated convention is led by an American, was meant to fund the reconstruction of Europe after the Second World War.

The Bank for International Settlements was created in 1930 to deal with reparation payments by Germany following the First World War.

And the Group of Seven has its roots in the 1970s, when then French President Valéry Giscard d'Estaing brought together the reigning world powers for what became an annual discussion of global problems.

While many of these bodies have successfully redefined themselves after their original *raison d'être* disappeared, neither individually nor collectively can they be considered a substitute for real global financial regulation.

What's needed:

It is time for governments to acknowledge that financial activity is now global and likely to remain so for the foreseeable future, which makes it incumbent on them to set up a system of regulation with commensurate reach.

They were able to do this in the area of trade. Why not finance?

The World Trade Organization has its problems, including a poorly thought-out decision-making process that makes expanding the rulebook difficult without unanimous agreement. Yet, with its 153 members it reflects the world we live in, not the one that existed more than half a century ago.

It deals with trade as a global activity and not just a domestic matter. Most important, the common rulebook agreed to by all encouraged rather than hindered trade.

At the moment, no one is proposing anything for the world of finance that has the same scope as the World Trade Organization and its supporting set of agreements. However, Gordon Brown, the British Prime Minister, has a plan he is bringing to Washington that includes the creation of an international financial supervisor to oversee the global activities of the 30 largest multinational financial companies in the world.

He appears to have the support of the other members of the European Union, although French President Nicolas Sarkozy would prefer to go even further and create a new form of capitalism altogether. Should Mr. Brown prevail, it would be a sensible first step toward a more global body.

Why we won't get it any time soon:

Unfortunately, Mr. Brown is unlikely to succeed. Governments jealously guard their sovereignty and are unwilling to give it up until every other alternative has been exhausted.

Even governments in smaller groupings have trouble giving up power. Look at the struggle to create a national securities regulator in Canada, or the ongoing debate among member governments in the European Union about a pan-European financial supervisor.

The most allergic of all to any talk of ceding sovereignty, never mind increasing regulation, is the United States. This is unlikely to change, no matter who becomes president after the election in November.

At a conference in Washington this week, economic advisers for both the John McCain and Barack Obama camps were dismissive of the summit and its aims. Their prescriptions for global financial stability were oddly similar: the U.S. would do its bit by getting its own house in order. Their vision did not extend any further.

That might have been too much to expect in the midst of an election campaign that will be won or lost on domestic issues and not some grand plan to bring more coherence to global financial governance.

An idea as ambitious as creating a new global institution requires a champion with the clout and prestige to persuade the doubters and chivvy stragglers into line during a prolonged period of negotiation. With the U.S. out of the running and Mr. Brown hobbled by his unpopularity at home, no such champion is evident.

Only the most optimistic expect the Washington summit to produce anything more than a lot of talk about the need for more co-operation among governments, central bankers and supervisors.

While co-operation is always a good idea, it is not a solution to the current problem of having national regulators for a global market. And if that mismatch produced one global crisis, it can surely produce another.

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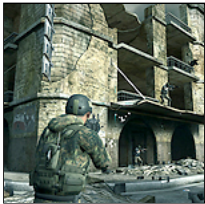
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